Financial Section

財務セクション

Financial Summary 財務サマリー

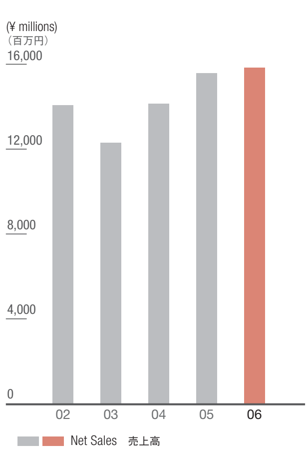
Years Ended March 31　3月31日		Millions of Yen 百万円 2006	2005
For the Year:	**連結会計年度：**		
Net Sales	売上高	**¥157,950**	¥155,264
Operating income	営業利益	**6,360**	3,364
Income before income taxes	税金等調整前当期純利益	**3,283**	2,151
Net income	当期純利益	**608**	128
Operating cash flows	営業活動によるキャッシュ・フロー	**8,637**	4,412
Investing cash flows	投資活動によるキャッシュ・フロー	**5,034**	(9,657)
Financing cash flows	財務活動によるキャッシュ・フロー	**(6,970)**	2,916
Free cash flows	フリーキャッシュ・フロー	**13,671**	(5,245)
At Year-End:	**連結会計年度末：**		
Total assets	総資産	**85,131**	91,878
Shareholders' equity	株主資本	**29,346**	29,424
Per Share (Yen and U.S. Dollars):	**1株当たり指標：**		
Basic net income (Yen)	当期純利益（円）	**¥1,427.33**	¥　73.55
Diluted net income (Yen)	潜在株式調整後当期純利益（円）	**—**	70.03
Cash dividends applicable to the year (Yen)	配当金（円）	**1,500.00**	1,500.00
Shareholders' equity (Yen)	株主資本（円）	**82,912.34**	82,654.36
Financial Indicators:	**財務指標：**		
Return on assets (%)	ROA（%）	**0.7%**	0.1%
Return on equity (%)	ROE（%）	**2.1%**	0.5%
Equity ratio (%)	株主資本比率（%）	**34.5%**	32.0%

Note1: U.S dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47=$1, the approximate exchange rate on March 31, 2006.
2: From the fiscal year to March 2003, calculation of net income per share and full-diluted net income per share have been based on "Accounting Standards for Net Income per Share" (Corporate Accounting Standards Number 2) and "Net Income per Share Accounting Standards Guideline" (Corporate Accounting Standards Applications Guideline Number 4).
3: During the fiscal year ended March 2004, a 1:2 stock split was effected on May 20, 2003. Consequently, net income per share for the fiscal year to March 2004 is calculated assuming the stock split occurred at the beginning of the fiscal year.

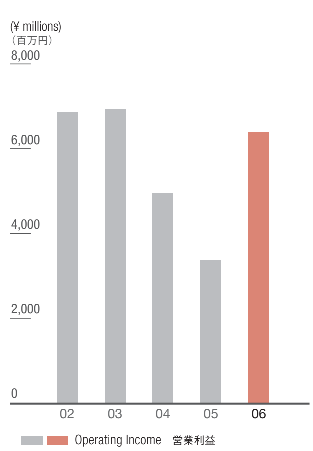
Cautionary Statements with Respect to Forward-Looking Statements

Statements in this annual report regarding the SHiDAX Group's future performance, plans, and targets are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the SHiDAX Group's actual results and achievements to differ materially from the expectations expressed herein. Such factors include, but are not limited to, fluctuating market trends and economic conditions.

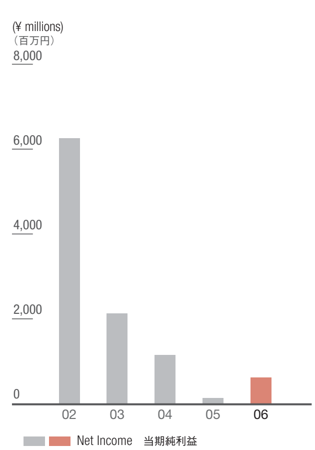
Net Sales
売上高



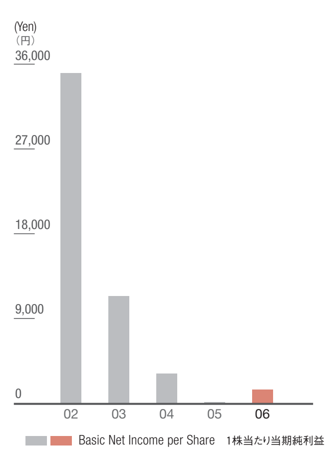
Operating Income
営業利益



Net Income
当期純利益



Basic Net Income per Share
1株当たり当期純利益



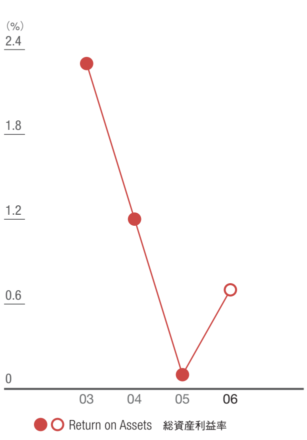
Millions of Yen 百万円			Thousands of U.S. Dollars *(Note 1)* 千米ドル（注記1）
2004	2003	2002	**2006**
¥140,909	¥122,563	¥140,304	**$1,344,603**
4,934	6,912	6,849	**54,140**
4,889	4,602	11,799	**27,952**
1,137	2,109	6,239	**5,173**
6,183	1,773	5,264	**73,528**
(5,622)	6,764	(2,496)	**42,849**
(8,612)	7,242	(4,610)	**(59,336)**
561	8,537	2,768	**116,377**
87,692	97,557	89,906	**724,708**
26,935	28,211	27,412	**249,814**
¥3,098.00	¥11,304.39	¥34,935.77	**$12.15**
—	—	—	**—**
1,500.00	3,000.00	2,000.00	**12.77**
84,486.57	164,508.81	153,485.38	**705.81**
1.2%	2.3%	—	**0.7%**
4.1%	7.6%	—	**2.1%**
30.7%	28.9%	30.5%	**34.5%**

（注）1. 米ドル表記は、便宜上、2006年3月31日現在の概算為替レート1米ドル＝117.47円で換算しています。
2. 2003年3月期から、１株当たり純資産額、１株当たり当期純利益金額および潜在株式調整後１株当たり当期純利益金額の算定に当たっては、「１株当たり当期純利益に関する会計基準」（企業会計基準第２号）および「１株当たり当期純利益に関する会計基準の適用指針」（企業会計基準適用指針第４号）を適用しています。
3. 2004年3月期において、2003年5月20日付で株式1株につき2株の株式分割を行いました。なお、2004年3月期の１株当たり当期純利益金額および1株当たり純資産額は期首に分割が行われたものとして計算しています。

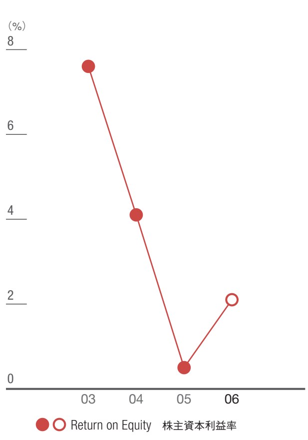
見通し、計画値に関する注意事項

このアニュアルレポートに記載されている、シダックスグループの業績の見通し、計画値等、将来に関する情報は、現段階における各種情報に基づいて当社の経営陣が判断したものであり、潜在的なリスクや不確定性が含まれており、確約するものではありません。したがって、実際は、市場動向、経済情勢などの変動により、かかる情報と大きく異なる可能性があることを、あらかじめご承知おき下さい。

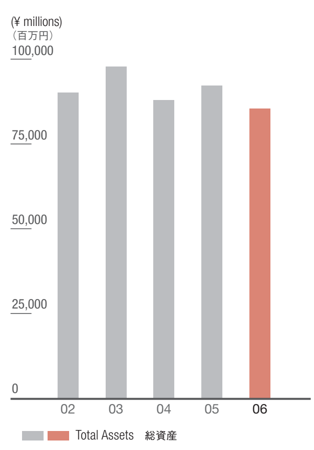
Return on Assets
総資産利益率



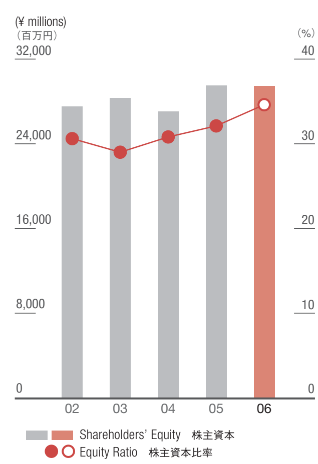
Return on Equity
株主資本利益率



Total Assets
総資産



Shareholders' Equity and Equity Ratio
株主資本／株主資本比率



Financial Review 財務レビュー

Performance

The Group's consolidated sales were ¥157,950 million for the fiscal year and ¥2,686 million (1.7%) higher than the previous fiscal year. Total sales were broken down into SLOGIX Corporation sales of ¥5,203 million (down 46.0% year-on-year), Contracted Food Services sales of ¥39,630 million (down 0.4% year-on-year), Medical Food Services sales of ¥39,087 million (up 6.0% year-on-year), Restaurant and Karaoke sales of ¥61,185 million (down 1.4% year-on-year), Deli and Convenience Services sales of ¥11,815 million (consolidated from the second half of the previous fiscal year), and sales from other businesses of ¥1,030 million (up 12.5% year-on-year).

In terms of earnings, gross profit increased ¥2,563 million or 14.0% year-on-year to ¥20,847 million as purchased foodstuff costs in the Group's foodstuff purchasing operations were reduced further through a standardized menu system and a methodology that integrated food purchasing with menu changes. In addition, sales promotion planning that was dispersed among each business subsidiary was consolidated into a single function which boosted productivity through the mutual sharing of specialist know-how and enhanced administrative capabilities, which worked to reduce indirect expenses and led to a ¥433 million (2.9% year-on-year) decline in selling, general and administrative expenses to ¥14,487 million. As a result, operating income was ¥6,360 million (up 89.0% year-on-year). Net income for the period increased ¥480 million (up 375.9% year-on-year) to ¥608 million.

Financial Position

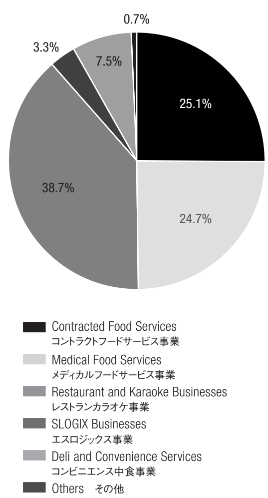
Consolidated current assets at the end of the fiscal year were ¥33,129 million and ¥6,068 million higher than at the end of the previous fiscal year. The major reasons were that cash and cash equivalents increased ¥6,701 million over the end of the previous fiscal year due to favorable sales activity and the sale of fixed assets.

Total fixed assets (net property and equipment plus total investments and other assets) were ¥52,002 million and ¥12,815 million lower than at the end of the previous fiscal year. This largely reflected restrained new restaurant and karaoke outlet openings as well as a decline in tangible assets of ¥10,523 million from sale and lease back transactions for outlet facilities, and a related ¥2,292 million decline in investments and other assets due to the securitization of outlet guarantee money refund rights.

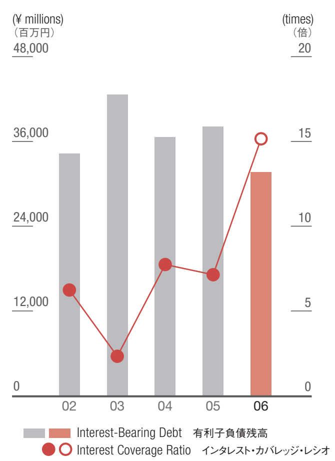
Current liabilities were ¥33,660 million, which represented a decline of ¥1,618 million from the end of the previous fiscal year. While ¥75 million worth of corporate bonds were transferred into the current portion of long-term debt, short-term borrowings and accrued facility expenses declined by ¥701 million and ¥609 million respectively.

Long-term liabilities were ¥21,752 million and ¥5,139 million lower

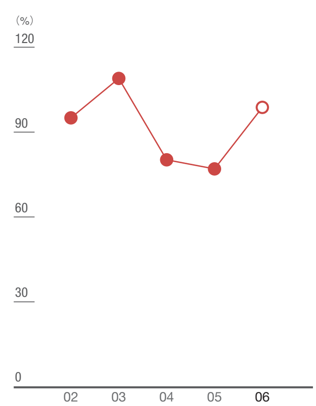
Sales by Business Segment
セグメント別売上構成比



Interest-Bearing Debt & Interest Coverage Ratio
有利子負債残高&インタレスト・カバレッジ・レシオ



Current Ratio
流動比率



経営成績

当社グループの連結売上高は、157,950百万円となり前期と比べて2,686百万円増加（前期比1.7%増）しました。主な内訳は、エスロジックス事業5,203百万円（前期比46.0%減）、コントラクトフードサービス事業39,630百万円（前期比0.4%減）、メディカルフードサービス事業39,087百万円（前期比6.0%増）、レストランカラオケ事業61,185百万円（前期比1.4%減）、コンビニエンス中食事業11,815百万円（前期下期連結）、その他事業1,030百万円（前期比12.5%増）となっています。

利益面に関しては、グループの食材購買事業において、標準メニューの作成システムとメニューに連動する統一食材の調達の仕組みが進捗したことで食材原価の低減が一段と可能となり売上総利益は2,563百万円増加（前期比14.0%増）し20,847百万円となりました。また、各事業子会社に分散していた販売促進企画などの共通機能を集約し、専門ノウハウの相互活用による生産性の向上および運営能力の向上を果たし、間接費を削減したことにより販売費及び一般管理費が433百万円減少（前期比2.9%減）し14,487百万円となりました。これらの結果、営業利益は6,360百万円（前期比89.0%増）となりました。当期純利益は前期に比べ480百万円増加し608百万円（前期比375.9%増）となりました。

財務状況

当期の流動資産の残高は、33,129百万円となり前期末と比べて6,068百万円増加しました。主な要因は、営業活動の順調な推移と固定資産等の売却により現金及び預金が前期末と比べて6,701百万円増加したことによります。

固定資産の残高は、52,002百万円となり前期末と比べて12,815百万円減少しました。主な要因は、レストランカラオケ事業の出店抑制および店舗設備のセールアンドリースバック取引などにより有形固定資産が10,523百万円、店舗保証金の返還請求権の流動化などにより投資その他の資産が2,292百万円それぞれ減少したことによります。

流動負債の残高は、33,660百万円となり前期末と比べて1,618百万円減少しました。これは主に、一年内償還予定の社債75百万円が発生したものの、短期借入金が701百万円、設備未払金が609百万円それぞれ減少したことなどによります。

固定負債残高は、21,752百万円となり前期末と比べて5,139百万円減少しました。これは主に、社債491百万円が新たに発生したものの、資金調達の多様化によって長期借入金が5,359百万円減少したことなどによります。これらの結果、負債合計は55,412百万円となり、前期末と比べて6,756百万円減少しました。

than at the end of the previous fiscal year. This was mainly due to a ¥5,359 million decline in long-term borrowings due to diversification of funding sources, while there was ¥491 million in new corporate bonds recorded. As a result, total liabilities were ¥55,412 million, representing a ¥6,757 million decline from the end of the previous fiscal year.

In addition, minority interests were ¥373 million due to the conversion of SHiDAX i Corporation into a consolidated subsidiary from the previous fiscal year.

Shareholders' equity was ¥29,346 million and ¥78 million lower than at the end of the previous fiscal year.

Cash Flows

Consolidated cash and cash equivalents at the end of the period under review were ¥19,204 million and ¥6,701 million (53.6%) higher than at the end of the previous fiscal year.

Net cash provided by operating activities was ¥8,637 million, which represents a ¥4,225 million (95.8%) increase in net cash provided the previous fiscal year. This cash inflow mainly reflected an increase in income before income taxes of ¥3,770 million excluding the extraordinary loss of ¥2,638 million for impairment losses, an increase in accounts and notes receivable and other of ¥845 million, and a decrease of ¥877 million in accounts and note payable and other.

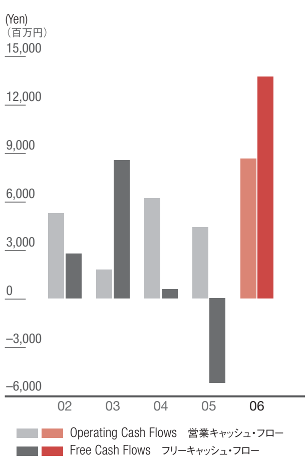
Net cash provided by investing activities was ¥5,034 million and represented a ¥14,691 million increase from a net cash outflow the previous fiscal year. This mainly reflected a decline of ¥8,948 million in cash outflows from a restrained pace of new restaurant and Karaoke outlet openings and the resulting decline in tangible fixed assets as well as lower security deposits and others, in addition to a ¥6,251 million cash inflow from the sale of tangible fixed assets.

Net cash used in financing activities was ¥6,970 million, which was a ¥9,886 million decrease compared to a net cash inflow the previous fiscal year. This mainly reflected a ¥7,600 million decrease in proceeds long-term borrowings, ¥356 million decrease from repayments of long-term debt, and a decline in cash inflows ¥2,494 million from the issuance of corporate bonds.

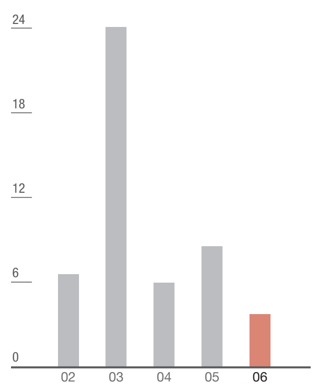
Capital Expenditures

Capital expenditures were ¥1,932 million. These expenditures consisted mainly of information system and information network equipment enhancements, in addition to the new construction and renewal of Restaurant and Karaoke facilities. In addition, depreciation expenses were ¥3,781 million and ¥29 million lower than the previous fiscal year.

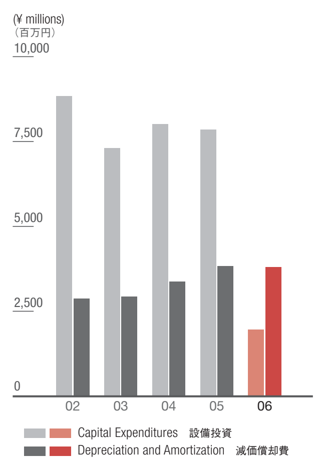
Operating Cash Flows & Free Cash Flows
営業キャッシュ・フロー&フリーキャッシュ・フロー



Interest-Bearing Debt/ Operating Cash Flows (years)
債務償還年数（年）



Capital Expenditures & Depreciation and Amortization
設備投資&減価償却費



なお、前期よりシダックスアイ㈱を子会社化したことにより、少数株主持分373百万円が発生しています。

資本の残高は、29,346百万円となり前期末と比べて78百万円減少しました。

キャッシュ・フロー

当期における現金及び現金同等物は、前期に比べ6,701百万円(前年同期比53.6%増)増加し19,204百万円となりました。

営業活動によるキャッシュ・フローは、当期において営業活動の結果、8,637百万円の資金増加となりました。前期に比べ営業活動による収入が4,225百万円増加（前年同期比95.8%増）しました。これは主に、当期に特別損失として計上した減損損失2,638百万円を除いて比べた税金等調整前当期純利益が3,770百万円増加、売上債権等の増減が845百万円増加、未払金減少が877百万円減少したことなどによります。

投資活動によるキャッシュ・フローは、当期において投資活動の結果、5,034百万円の資金増加となりました。前期に比べ14,691百万円増加しました。これは主に、レストランカラオケ事業の出店抑制による有形固定資産および無形固定資産及び敷金、保証金等の支出が8,948百万円減少、有形固定資産の売却による収入が6,251百万円増加したことなどによります。

財務活動によるキャッシュ・フローは、当期において財務活動の結果、6,970百万円の資金減少となりました。前期に比べ財務活動による収入が9,886百万円減少しました。これは主に、長期借入金の借入7,600百万円の減少および返済356百万円の減少、社債発行による収入2,494百万円の減少によるものです。

設備投資

設備投資は、情報システムの構築や情報ネットワーク機器の拡充、レストランカラオケ設備の新設・更新などにより、1,932百万円となりました。また、減価償却費は3,781百万円となり前期に比べ29百万円減少となりました。

Business and Other Risks 事業等のリスク

The major potential business and other risks that could possibly have an impact on investor decisions are listed below. In addition to being aware of these risks, the Group is making every effort to prevent such risks and to quickly respond should they occur. In addition, the potential risks include forward-looking items which are based on information available and management decisions as of the end of the consolidated fiscal year under review. Changes in various factors may cause actual results to differ materially from what is indicated.

1. Factors Affecting Business Performance

Competition with Other Companies in the Same Industry

Businesses in which the Group is involved face severe competition from other companies in the same industry. In Contracted Food Services and Medical Food Services, prices for outsourcing contracts have continued to decline over the past several years due to competition for orders among major companies in the segment. In Restaurant and Karaoke Businesses, business is easily affected by the number of customers and the average expenditure per customer, given the per-hour services consumed format of the business and the diversified customer needs of each age group. In the Deli and Convenience Services home meal replacement segment, saturation of the convenience store sector has resulted in an active advance by convenience stores into in-house convenience outlets, in which the Group has already established many outlets. As a result, the Group's business performance could be adversely affected by unforeseen restraints to its business plans.

Personnel Training and Education

All of the Group's businesses are related to the services industry, and it employs a total of approximately 20,000 full-time and part-time employees. As a result, it is crucial to ensure a sufficient number of capable individuals for upper management, administrative, specialist, and on-site positions. The Group's business performance could be materially affected by lack of sufficient personnel which would cause difficulties in new business development, and a decline in customer service levels.

Food Poisoning

The Group is involved in the provision of food services. The outbreak of food poisoning caused by a problem with the Group's sanitation management could result in a temporary suspension of business for the related sales branch. However, the negative impact of such an event is unlikely to have a material impact on the Group's overall business performance.

Medical Welfare Administration

Trends in the financial condition of hospitals and welfare facilities that are customers as well as medical welfare administration have a significant impact on the Group's Medical Food Services business. Amendments to the Nursing Insurance Law in October 2005 and amendments to the Medical Insurance System in April 2006 and the impact these amendments will have on hospitals, welfare facilities, and others could have a material impact on the Group's business performance.

Foodstuff Procurement

The Group's SLOGIX Businesses conduct unified distribution operations for the Contract Food Services and Medical Food Services businesses. As a social problems solution company, the Group is working to build a distribution system that provides for dependable and safe foodstuffs as well as environmental considerations, and in addition, the Group implements plans for stable foodstuff prices and supply. Sudden changes

当社グループの事業その他に関するリスクについて、投資家の判断に影響をおよぼす可能性があると考えられる主なものとしては、以下の内容が挙げられます。また、当社グループは、これらのリスクを認識した上で、事態の発生の回避および発生した場合の迅速な対応を行っていきます。なお、本項においては将来に関する事項も含まれていますが、当該事項は当連結会計期間期末現在において判断したものであり、さまざまな要因によって実際の結果と異なる可能性があります。

1. 業績の変動要因について

同業者との競合について

当社グループが属する事業は同業者間の競争が一層激しくなっています。コントラクトフードサービス事業およびメディカルフードサービス事業では、大手同業者間でこの数年間は激しい受注合戦が繰り広げられ受託価格の低下傾向が続いています。レストランカラオケ事業では、時間消費型サービス業態およびお客様の世代毎のニーズの多様化により、客数と客単価が影響を受けやすくなっています。コンビニエンス中食事業では、コンビニエンス業界の飽和感により、当社グループが多く出店する病院施設内に大手コンビニエンスチェーンが積極的に出店を進めています。各事業の事業計画において想定しない阻害要因が発生した場合には、当社グループの業績に影響をおよぼす可能性があります。

人材の確保と育成について

当社グループの全ての事業がサービス産業に属しており、正社員に加えて臨時従業員を含めると約２万人の雇用者が従事しています。したがって、経営層・管理職・専門有資格者・現場従事者等に至るまで優秀な人材の確保とその育成が不可欠であります。人材の確保と育成が十分に為されず新規営業開発の進捗やお客様へのサービスレベルの低下を招く場合には、当社グループの業績に影響をおよぼす可能性があります。

食中毒について

当社グループは、食事提供サービスを行っています。当社グループの衛生管理に起因する食中毒が発生する場合には、当該営業店の営業が一定期間停止される可能性があります。しかしながら、全体の業績に対しての影響は軽微と考えております。

医療福祉行政について

当社グループのメディカルフードサービス事業においては、お客様である病院・福祉施設等の経営状況は、医療福祉行政の動向に大きな影響を受けます。2005年10月の介護保険法改正、2006年4月の医療保険制度改正が病院・福祉施設等に与える影響の程度により、当社グループの業績に影響をおよぼす可能性があります。

食材調達について

当社グループのエスロジックス事業では、主にコントラクトフードサービス事業とメディカルフードサービス事業の食材の一元物流事業を行っています。社会問題解決型企業として、食材の安心・安全を追求し、環境へも配慮した物流体制を構築し、そのうえで食材価格や物量の安定調達を計画実行しています。調達食

in the supply demand-balance, quality, or prices due to unforeseen changes in the procured foodstuffs market or foreign exchange market as well as natural disasters could have a material impact on the Group's business performance.

Management of Personal Information

The Group's SITEX Corp. subsidiary primarily manages personal information on members in the Restaurant and Karaoke Businesses. In order to abide by the Private Information Protection Law and provide appropriate information management, the Group has created a privacy protection policy and an information management manual, and is working to educate companies with which it does business as well as its directors and employees in order to take every step necessary to prevent leakages of personal information. This notwithstanding, leakages of personal information through negligence in the Group's information management could have a material financial impact on the Group, including possible damage claims.

Interest-Bearing Debt Dependency

The Group incurs interest-bearing debts procuring capital from financial institutions for new store openings in mainly its Restaurant and Karaoke Businesses. Future interest rate fluctuations and other factors causing a rise in procurement costs could have a material impact on the Group's financial performance. Moreover, consolidated interest-bearing debt at the end of March 31, 2006 was ¥31,539 million, which was the equivalent of 37.0% of total assets.

Impairment Accounting

For the fiscal year under review, the Group reported consolidated fixed asset impairment losses of ¥2,638 million due to the adoption of "standards for the accounting of impairment on fixed assets." In the future, fluctuations in the Group's revenues could result in the recording of impairment losses.

Capital and Business Alliances

With the aim of expanding its business domain and growth potential, the Group sometimes invests in other companies and forms business alliances based on a conservative plan to recover this investment in cases where large synergies with the Group's businesses are expected. In the implementation of these policies, the occurrence of unforeseen factors beyond management's control such as changes in the operating environment or legal regulations may have a material impact on the Group's business performance.

2. The major transactions between SHiDAX CORPORATION and its directors or shareholders holding more than half the outstanding voting rights are as follows.

Real Estate Transactions

The SHiDAX Group rents its headquarters offices, and the Group's consolidated subsidiary SHiDAX Community Corporation rents its hotel facilities and winery facilities from Shida Co., Ltd., of which the Group's Chairman of the Board, Tsutomu Shida, serves as the representative director. Security deposits and rent on these properties are determined by an appraisal report prepared by a licensed real estate appraiser.

材が市況・為替相場・自然災害などで需給バランスが崩れ品質や価格が変化した場合には、当社グループの業績に影響をおよぼす可能性があります。

個人情報の管理について

当社グループの子会社であるエス・アイテックス㈱は、主にレストランカラオケ事業における個人の会員情報を管理しています。個人情報保護法を遵守し、適切に管理するために、当社グループのプライバシーポリシーおよび管理マニュアルを定め、関連する取引先企業および当社の役員、従業員に対して教育を行うなど、会員情報の漏洩防止に関してできる限りの手立てをとっています。しかしながら、当社グループの管理責任の不備により漏洩した場合には、損害賠償を含めた財務負担が生じる可能性があります。

有利子負債の依存度について

当社グループの有利子負債は、主にレストランカラオケ事業の出店資金として金融機関から調達したものであります。今後の金利動向等によって調達コストが上昇した場合には、当社グループの業績に影響をおよぼす可能性があります。なお、連結有利子負債残高は2006年3月31日現在31,539百万円であり、これの総資産に対する割合は37.0%であります。

減損会計の影響について

当社グループが所有する固定資産につきまして、「固定資産の減損に係る会計基準」の適用により当連結会計年度において2,638百万円の減損損失を計上しました。今後、当社グループの収益の変動によっては減損損失を計上する可能性があります。

資本・事業提携等について

当社グループの事業領域の拡大および成長発展を目的として、慎重な投資回収計画を前提とした資本提携や当社グループ事業とのシナジー効果が大きく見込める事業提携等を実施することがあります。これらの施策を実行するにあたり、経済環境や法規制等の変化など、経営のコントロールを超える予期し得ない外的要因が発生した場合には、当社グループの業績に影響をおよぼす可能性があります。

2. 会社と役員又は議決権の過半数を実質的に所有している株主との間の重要な取引関係等に係るもの

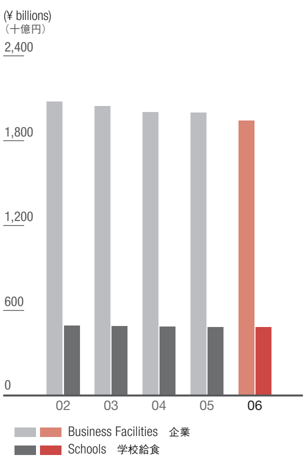
不動産の賃貸借取引について

当社代表取締役会長の志太勤が代表取締役を兼任している㈱志太より、当社は本社事務所を、当社の連結子会社でありますシダックス・コミュニティー㈱は、ホテル設備及びワイナリー設備を賃借しています。賃借することにより発生する敷金および賃借料は、不動産鑑定士による鑑定評価書に基づき決定しています。

Segment Information セグメント情報

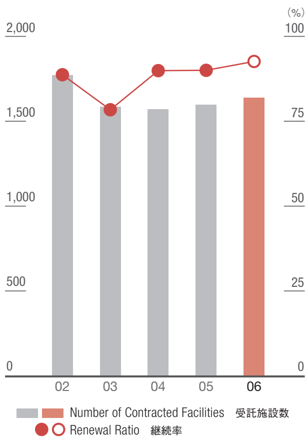
Contracted Food Services コントラクトフードサービス事業

Contracted Food Services Market
事業所・学校給食市場の推移

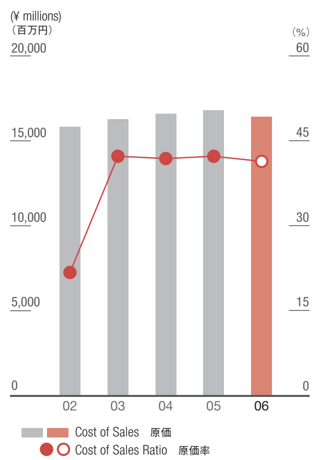


Source: Food Service Industry Survey Research Center.
出典：(財)外食産業総合調査研究センター

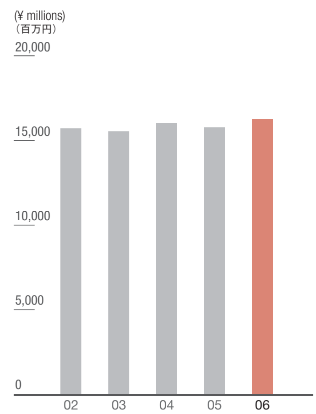
Trend in Number of Contracted Food Services Contracts
コントラクトフードサービス事業の受託施設数推移



Cost of Sales and Cost of Sales Ratio in Contracted Food Services
コントラクトフードサービス事業の原価・原価率推移

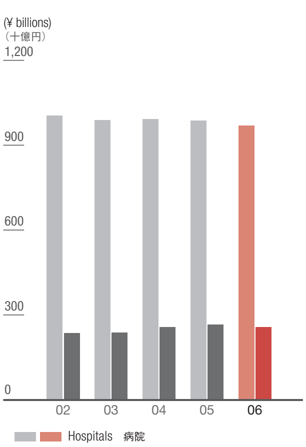


Labor Cost in Contracted Food Services
コントラクトフードサービス事業の労務費推移



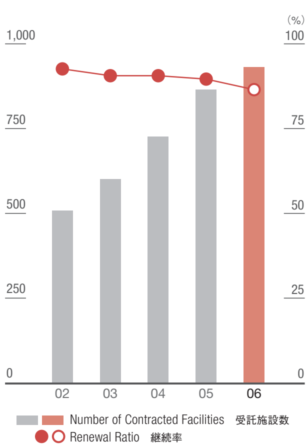
Medical Food Services メディカルフードサービス事業

Medical Food Services Market
メディカル給食市場の推移

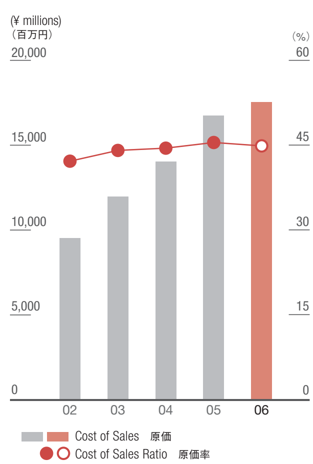


Source: Food Service Industry Survey Research Center.
出典：(財)外食産業総合調査研究センター

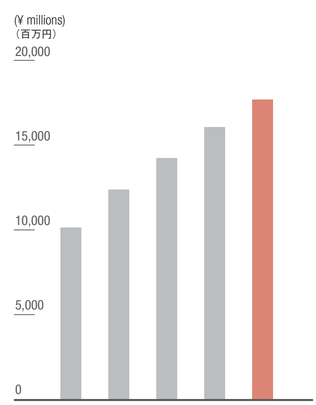
Trend in Number of Medical Food Services Contracts
メディカルフードサービス事業の受託施設数推移



Cost of Sales and Cost of Sales Ratio in Medical Food Services
メディカルフードサービス事業の原価・原価率推移

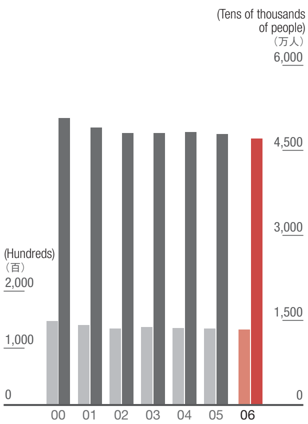


Labor Cost in Medical Food Services
メディカルフードサービス事業の労務費推移



Restaurant and Karaoke Businesses レストランカラオケ事業

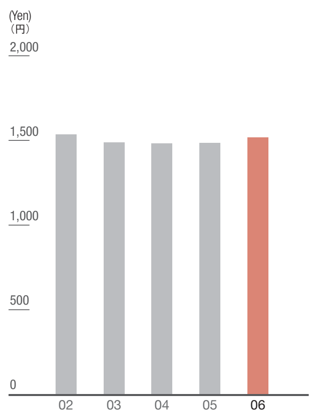
Karaoke Market
カラオケ市場の推移



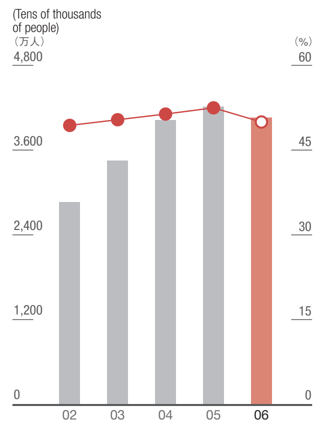
Number of Karaoke Rooms カラオケルーム数
Gross Karaoke Customers カラオケ延べ参加人口

Source: Karaoke Industrialist Association and Institute for Free Time Design.
出典：全国カラオケ事業者協会および財団法人自由時間デザイン協会

Sales per Customer
客単価の推移

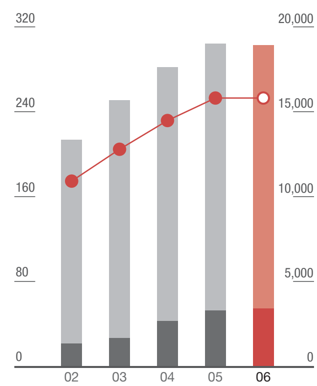


Gross Number of Customers & Ratio of Drinking and Eating Sales
レストランカラオケ事業の総来客数と飲食収入比率



Gross Number of Customers 総来客数
Ratio of Drinking and Eating to Sales 飲食収入率

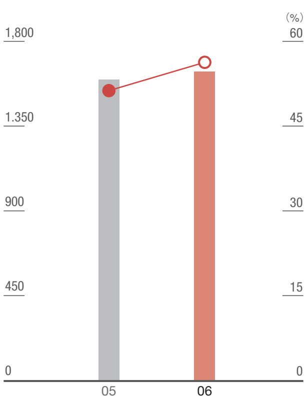
Trend in Restaurant and Karaoke Outlets
レストランカラオケ事業の店舗数の推移



Road-Side Type ロードサイド
Amusement District Type 繁華街
Rooms ルーム数

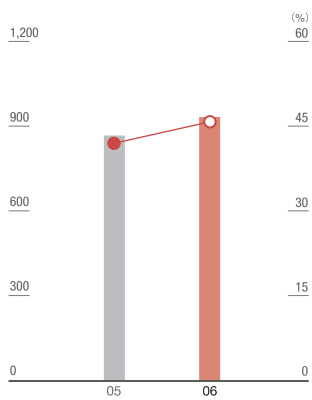
SLOGIX Businesses エスロジックス事業

Number of Contracted and Consolidated Distribution Ratio (Contracted Food Services)
店舗数と一元物流導入率
（コントラクトフードサービス事業）



Number of Contracted 店舗数
Consolidated Distribution Ratio 一元物流導入率

Number of Contracted and Consolidated Distribution Ratio (Medical Food Services)
店舗数と一元物流導入率
（メディカルフードサービス事業）



Number of Contracted 店舗数
Consolidated Distribution Ratio 一元物流導入率

SHiDAX CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 19,204**	¥ 12,503	**$ 163,477**
Time deposits *(Note 13)*	**250**	250	**2,131**
Accounts and notes receivable:			
Trade	**9,121**	9,258	**77,644**
Unconsolidated subsidiaries and affiliates	**15**	23	**129**
Other	**774**	1,216	**6,590**
Allowance for doubtful accounts	**(63)**	(65)	**(538)**
Inventories *(Note 3)*	**1,379**	1,308	**11,737**
Deferred tax assets *(Note 12)*	**856**	737	**7,287**
Prepaid expenses and other current assets	**1,593**	1,831	**13,570**
Total current assets	**33,129**	27,061	**282,027**
PROPERTY AND EQUIPMENT *(Notes 4 and 6)*:			
Land	**1,137**	1,182	**9,678**
Buildings and structures	**38,997**	50,795	**331,974**
Furniture and equipment	**5,799**	6,391	**49,367**
Construction in progress		196	
Total	**45,933**	58,564	**391,019**
Accumulated depreciation	**(15,695)**	(17,803)	**(133,610)**
Net property and equipment	**30,238**	40,761	**257,409**
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 5 and 13)*	**829**	685	**7,055**
Investments in and advances to unconsolidated subsidiaries and affiliated companies	**177**	221	**1,501**
Software—net	**687**	912	**5,847**
Security deposits *(Note 16)*	**11,501**	11,950	**97,908**
Construction assistance fund receivables	**3,646**	4,168	**31,036**
Deferred tax assets *(Note 12)*	**2,501**	3,516	**21,291**
Other assets	**4,704**	4,991	**40,049**
Allowance for doubtful accounts	**(2,281)**	(2,387)	**(19,415)**
Total investments and other assets	**21,764**	24,056	**185,272**
TOTAL	**¥ 85,131**	¥ 91,878	**$ 724,708**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term borrowings *(Note 6)*	**¥ 1,344**	¥ 2,045	**$ 11,445**
Current portion of long-term debt *(Note 6)*	**11,608**	11,973	**98,819**
Accounts and notes payable:			
Trade	**9,256**	9,328	**78,792**
Other	**3,112**	3,634	**26,490**
Accrued income taxes *(Note 12)*	**991**	1,481	**8,436**
Accrued expenses	**5,905**	5,861	**50,265**
Other current liabilities	**1,444**	956	**12,297**
Total current liabilities	**33,660**	35,278	**286,544**
LONG-TERM LIABILITIES:			
Long-term debt, less current portion *(Note 6)*	**18,586**	23,945	**158,223**
Retirement allowances for directors and corporate auditors *(Note 8)*	**509**	500	**4,329**
Negative goodwill	**1,568**	1,583	**13,351**
Deferred tax liabilities *(Note 12)*	**506**	517	**4,310**
Other long-term liabilities	**583**	346	**4,960**
Total long-term liabilities	**21,752**	26,891	**185,173**
MINORITY INTERESTS	**373**	285	**3,177**
CONTINGENT LIABILITIES *(Note 9)*			
SHAREHOLDERS' EQUITY *(Notes 10 and 19.a)*:			
Common stock—authorized, 1,400,000 shares; issued, 357,214 shares in 2006 and 2005	**8,930**	8,930	**76,022**
Capital surplus	**8,112**	8,099	**69,057**
Retained earnings	**12,455**	12,484	**106,025**
Unrealized gain on available-for-sale securities	**196**	102	**1,668**
Treasury stock—at cost, 4,537 shares in 2006 and 2,484 shares in 2005	**(347)**	(191)	**(2,958)**
Total shareholders' equity	**29,346**	29,424	**249,814**
TOTAL	**¥ 85,131**	¥ 91,878	**$ 724,708**

Consolidated Statements of Income

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
NET SALES	**¥157,950**	¥155,264	**$1,344,603**
COST OF SALES	**137,103**	136,980	**1,167,133**
Gross profit	**20,847**	18,284	**177,470**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Notes 14 and 16)*	**14,487**	14,920	**123,330**
Operating income	**6,360**	3,364	**54,140**
OTHER INCOME (EXPENSES):			
Dividend and interest income	**22**	27	**192**
Gain on sales of karaoke machines	**117**		**994**
Interest expense	**(576)**	(638)	**(4,899)**
Loss on sales or disposals of property and equipment and other—net	**(100)**	(99)	**(854)**
Loss from discontinued store operations	**(102)**	(92)	**(871)**
Penalty for breaking store leases		(115)	
Amortization of negative goodwill	**149**	149	**1,269**
Foreign exchange (loss) gain—net	**(1)**	196	**(12)**
Loss on liquidation of security deposits	**(149)**		**(1,269)**
Impairment of goodwill		(760)	
Impairment of long-lived assets *(Note 4)*	**(2,638)**		**(22,455)**
Other—net	**201**	119	**1,717**
Other expenses—net	**(3,077)**	(1,213)	**(26,188)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**3,283**	2,151	**27,952**
INCOME TAXES *(Note 12)*:			
Current	**1,873**	1,808	**15,948**
Deferred	**816**	267	**6,946**
Total income taxes	**2,689**	2,075	**22,894**
MINORITY INTERESTS IN NET INCOME	**(14)**	(52)	**(115)**
NET INCOME	**¥ 608**	¥ 128	**$ 5,173**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK *(Notes 2.r and 17)*:			
Basic net income	**¥1,427.33**	¥ 73.55	**$12.15**
Diluted net income		70.03	
Cash dividends applicable to the year	**1,500.00**	1,500.00	**12.77**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

		Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, APRIL 1, 2004	317,604	¥8,930	¥7,848	¥12,934	¥132	¥(2,909)
Reissuance of treasury stock due to conversion of convertible bonds *(Note 10)*	37,416		251			2,749
Net income				128		
Cash dividends, ¥1,500 per share				(476)		
Bonuses to directors and corporate auditors				(102)		
Net decrease in unrealized gain on available-for-sale securities					(30)	
Purchase of treasury stock *(Note 10)*	(290)					(31)
BALANCE, MARCH 31, 2005	354,730	8,930	8,099	12,484	102	(191)
Sales of treasury stock *(Note 10)*			**13**			**29**
Net income				**608**		
Cash dividends, ¥1,500 per share				**(533)**		
Bonuses to directors and corporate auditors				**(104)**		
Net increase in unrealized gain on available-for-sale securities					**94**	
Purchase of treasury stock *(Note 10)*	**(2,053)**					**(185)**
BALANCE, MARCH 31, 2006	**352,677**	**¥8,930**	**¥8,112**	**¥12,455**	**¥196**	**¥ (347)**

	Thousands of U.S. Dollars *(Note 1)*				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, MARCH 31, 2005	$76,022	$68,941	$106,273	$ 872	$(1,627)
Sales of treasury stock *(Note 10)*		**116**			**243**
Net income			**5,173**		
Cash dividends, $12.77 per share			**(4,533)**		
Bonuses to directors and corporate auditors			**(888)**		
Net increase in unrealized gain on available-for-sale securities				**796**	
Purchase of treasury stock *(Note 10)*					**(1,574)**
BALANCE, MARCH 31, 2006	**$76,022**	**$69,057**	**$106,025**	**$1,668**	**$(2,958)**

Consolidated Statements of Cash Flows

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 3,283**	¥ 2,151	**$ 27,952**
Adjustments for:			
Income taxes paid	**(2,245)**	(1,703)	**(19,112)**
Depreciation and amortization	**3,764**	3,981	**32,048**
Impairment of goodwill		760	
Impairment of long-lived assets	**2,638**		**22,455**
Provision for accrued bonuses	**(3)**	40	**(27)**
Reversal of allowance for doubtful accounts	**(108)**	(148)	**(920)**
Foreign exchange gain—net		(196)	**(1)**
Loss on sales or disposals of property and equipment and other—net	**100**	99	**854**
Loss on liquidation of security deposits	**149**		**1,269**
Bonuses to directors and corporate auditors	**(104)**	(102)	**(888)**
Changes in operating assets and liabilities:			
Decrease (increase) in accounts and notes receivable	**587**	(257)	**5,002**
(Increase) decrease in inventories	**(71)**	234	**(601)**
Decrease in accounts and notes payable	**(261)**	(1,139)	**(2,226)**
Increase (decrease) in accrued consumption tax	**449**	(225)	**3,819**
Other—net	**459**	917	**3,904**
Net cash provided by operating activities	**8,637**	4,412	**73,528**
INVESTING ACTIVITIES:			
Purchase of property and equipment and other	**(2,023)**	(8,886)	**(17,224)**
Proceeds from sales of property and equipment	**6,304**	52	**53,660**
Purchase of investment securities	**(26)**	(126)	**(222)**
Proceeds from sales of investment securities	**152**	257	**1,300**
Proceeds from purchase of subsidiary's stock		628	
Investment in loans receivable	**(97)**	(441)	**(830)**
Collection of loans receivable	**292**	952	**2,488**
Payments for security deposits and other	**(459)**	(2,545)	**(3,910)**
Collection of security deposits and other	**197**	424	**1,678**
Proceeds from liquidation of security deposits and other	**1,127**		**9,598**
Other—net	**(433)**	28	**(3,689)**
Net cash provided by (used in) investing activities	**5,034**	(9,657)	**42,849**
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	**(701)**	(602)	**(5,965)**
Proceeds from long-term debt	**6,200**	13,800	**52,779**
Repayments of long-term debt	**(12,431)**	(12,788)	**(105,828)**
Proceeds from issuance of bonds	**491**	2,984	**4,176**
Dividends paid	**(533)**	(476)	**(4,533)**
Proceeds from sales of treasury stock	**189**		**1,609**
Purchase of treasury stock	**(185)**	(2)	**(1,574)**
Net cash (used in) provided by financing activities	**(6,970)**	2,916	**(59,336)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		196	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,701**	(2,133)	**57,041**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**12,503**	14,636	**106,436**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 19,204**	¥ 12,503	**$ 163,477**
NON-CASH INVESTING AND FINANCING ACTIVITIES *(Note 10)*:			
Decrease in treasury stock due to exercise of warrants		¥ 2,749	
Increase in capital surplus due to exercise of warrants		251	
Decrease in convertible bonds with warrants due to exercise of warrants		¥ 3,000	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION *(Note 2.a)*:			
Current assets		¥ (2,796)	
Non-current assets		(357)	
Current liabilities		2,263	
Non-current liabilities		418	
Goodwill		(670)	
Minority interests		338	
Acquisition cost		(804)	
Cash and cash equivalents held by a subsidiary		1,432	
Proceeds from purchase of a subsidiary's stock		¥ 628	
Cash paid for interest		¥ 622	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain disclosures contained herein are not required as part of the basic financial statements in Japan but are presented herein as additional information. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which SHiDAX CORPORATION (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.47 to U.S.$1, the rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2006 include the accounts of the Company, SHiDAX FOOD SERVICE CORPORATION ("SFSC"), SHiDAX COMMUNITY CORPORATION ("SCC"), SLOGIX CORPORATION, SHIDAX ENGINEERING CORPORATION ("SEC") and seven other significant (seven in 2005) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

None of the unconsolidated subsidiaries and affiliated companies are accounted for by the equity method. Investments in two unconsolidated subsidiaries and nine (seven in 2005) affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and affiliated companies accounted for by the equity method over the fair value of the net assets of the acquired subsidiaries and affiliated companies at the date of acquisition, consolidation goodwill, is being amortized by the straight-line method over the estimated useful life of consolidation goodwill, while it is amortized over five years if its useful life is not reasonably estimable. For other than temporary declines in effect, consolidation goodwill is reduced by a charge to income.

Negative goodwill represents the excess of the fair value of the net assets of the acquired subsidiaries and affiliated companies at the date of acquisition over the cost of the Company's investments in consolidated subsidiaries and affiliated companies accounted for by the equity method. Negative goodwill is amortized by the straight-line method over the estimated useful life of negative goodwill, while it is amortized over five years if its useful life is not reasonably estimable. For other than temporary declines in effect, negative goodwill is reduced by a charge to income.

All significant intercompany balances and transactions have been eliminated in consolidation. All material intercompany unrealized profit included in assets resulting from transactions within the Group is eliminated.

On October 1, 2004, for the purpose of collecting and managing information regarding SHiDAX club's membership, the Company acquired 100% of the shares of SHiDAX C&V NISHINIHON CORPORATION (currently, known as SITEX CORPORATION ("SITEX")) from SHiDAX C&V CORPORATION (currently, known as SHiDAX i CORPORATION ("SHiDAX i")). The main business of SITEX is to manage membership points of SHiDAX club provided to customers. SITEX became a consolidated subsidiary of the Company in October 2004.

On December 22, 2004, for the purpose of strengthening the competitive standing of contracted food service and medical food service, the Company acquired 22.3% of the shares of SHiDAX i for net proceeds of ¥628 million. The main business of SHiDAX i is to provide deli and convenience services for hospitals, companies and schools. SHiDAX i became a consolidated subsidiary of the Company in October 2004.

On March 18, 2005, for the purpose of expanding contracted food services especially for schools, the Company established S MEAL CORPORATION ("SMC") with a 100% ownership. The main business of SMC is to provide food and management services for dining rooms of schools. SMC became a consolidated subsidiary of the Company in March 2005.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and special deposits, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Merchandise for deli and convenience services is stated at cost determined by the retail method as generally applied for the retail industry in Japan. Other merchandise is stated at cost determined by the monthly average method. Raw materials and supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. Property and Equipment—Property and equipment are stated at cost. Depreciation is computed by using the straight-line method over the estimated useful lives of the respective assets. Their estimated useful lives range principally from 2 to 47 years for buildings and structures and from 2 to 20 years for furniture and equipment.

e. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥2,638 million ($22,455 thousand).

f. Investment Securities—Investment securities are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined by the average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Software—Software used for internal purposes is capitalized and stated at cost, less accumulated amortization. Amortization is computed by using the straight-line method over five years, the estimated useful life of software.

h. Other Assets—Intangible assets and long-term prepaid expenses are carried at cost less accumulated amortization, which is calculated by using the straight-line method.

i. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. Bond Issuance Costs—Bond issuance costs are charged to income when incurred.

k. Employees' Retirement Benefits—The Group has a defined contribution pension plan and a prepaid retirement benefit plan.

l. Retirement Allowances for Directors and Corporate Auditors—Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required in accordance with the Group's internal policy if all directors and corporate auditors retired at each balance sheet date.

m. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

n. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2006, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

o. Accounting for Consumption Taxes—The consumption taxes imposed on revenue from customers for the Group's services are withheld by the Group at the time funds are received and subsequently paid to the government. The consumption tax withheld upon recognition of revenue and the consumption tax paid by the Group on the purchase of products, merchandise and services from vendors are not included in the related accounts in the accompanying consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and net overpayment is included in current assets and net overwithholding is included in current liabilities.

p. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

q. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps and interest rate caps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps and interest rate caps are utilized to hedge interest rate exposures of long-term debt. These swaps and caps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap and cap agreements are recognized and included in interest expense or income.

r. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of common shares used in the computation was 352,651 shares for 2006 and 320,249 shares for 2005.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share is not disclosed because it is antidilutive in 2006.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year-end to which such bonuses are attributable.

The Group expects to adopt these pronouncements as of April 1, 2006 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVENTORIES

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Merchandise	**¥ 671**	¥ 655	**$ 5,713**
Raw materials	**506**	483	**4,302**
Supplies	**202**	170	**1,722**
Total	**¥1,379**	¥1,308	**$11,737**

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥2,612 million ($22,233 thousand) as other expense for certain sales outlets and kitchen facilities due to continuous operating losses. The carrying amount of the relevant assets was written down to the recoverable amount.

In addition, the Group recognized an impairment loss of ¥26 million ($222 thousand) as other expense for idle land. The carrying amount was written down to the recoverable amount.

Following table summarized impairment losses for the year ended March 31, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 26	$ 222
Building and structures	2,043	17,393
Furniture and equipment	185	1,570
Leased properties	384	3,270
Total	¥2,638	$22,455

The long-lived assets are grouped based on the minimum units for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The recoverable amount is determined by comparing the net selling price with the value in use. The net selling price is the appraised value with rational adjustments, whereas value in use is the sum of the net projected future cash flows discounted at a rate of 5%.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-current:			
Marketable equity securities	**¥345**	¥231	**$2,936**
Non-marketable equity securities	**308**	327	**2,622**
Other	**176**	127	**1,497**
Total	**¥829**	¥685	**$7,055**

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥111**	**¥234**		**¥345**
Other	**102**	**71**		**173**
March 31, 2005				
Securities classified as available-for-sale:				
Equity securities	110	121		231
Other	101	31	¥8	124

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$942**	**$1,994**		**$2,936**
Other	**872**	**600**		**1,472**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Available-for-sale:			
Equity securities	**¥308**	¥327	**$2,622**
Other	**3**	3	**25**

For other than temporary declines where fair values of securities at the end of the fiscal year become less than 60% of their acquisition costs or fair values of securities decline by more than 30% of their acquisition costs in two consecutive years, investment securities are reduced to net realizable value by a charge to income. For the years ended March 31, 2006 and 2005, no impairment losses for non-current marketable equity securities were recognized.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥152 million ($1,300 thousand) and ¥257 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥50 million ($425 thousand) and zero, respectively, for the year ended March 31, 2006 and ¥87 million and zero, respectively, for the year ended March 31, 2005.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Short-term borrowings:			
From banks, 1.375% to 1.625% (1.375% to 1.625% in 2005)	**¥1,250**	¥1,935	**$10,641**
From other, 0.500% (0.500% in 2005)	**94**	110	**804**
Total	**¥1,344**	¥2,045	**$11,445**

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Loans from financial institutions, 0.790% to 2.620% (0.787% to 2.620% in 2005), due serially to 2012:			
Collateralized	**¥ 540**	¥ 400	**$ 4,597**
Unsecured	**29,154**	35,212	**248,189**
Installment payable for equipment, 3.115% to 4.411% in 2005, due serially to 2006—Unsecured		276	
Unsecured 1.09% Japanese yen bonds due serially to 2012	**500**		**4,256**
Unsecured installment notes payable for equipment, 4.569% to 4.583% in 2005, due serially to 2006		30	
Total	**30,194**	35,918	**257,042**
Less current portion	**(11,608)**	(11,973)	**(98,819)**
Long-term debt, less current portion	**¥ 18,586**	¥ 23,945	**$158,223**

Collateralized loans from banks of ¥360 million ($3,065 thousand) as of March 31, 2006 were included in the current portion of long-term debt.

The carrying amounts of assets pledged as collateral for long-term debt of ¥540 million ($4,597 thousand) at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 49	$ 415
Buildings and structures	441	3,755

Annual maturities of long-term debt as of March 31, 2006 for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥11,608	$ 98,819
2008	8,630	73,468
2009	4,517	38,452
2010	2,977	25,344
2011	947	8,062
2012 and thereafter	1,515	12,897
Total	¥30,194	$257,042

7. EMPLOYEES' RETIREMENT BENEFITS

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Contributions to a defined contribution pension plan	**¥79**	¥85	**$675**

8. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code"). The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provision for retirement allowances for directors and corporate auditors for the years ended March 31, 2006 and 2005 was ¥32 million ($272 thousand) and ¥49 million, respectively.

9. CONTINGENT LIABILITIES

a. Liability for Compensation for Damages and Other Defined

For the year ended March 31, 2004, SCC transferred a portion of reimbursement rights of security deposits for store buildings to Millennium Asset Funding Corp. (Tokyo Branch) and Global Factoring, Co. Upon the transfer contracts, SCC as a seller made representation and warranty to the buyers as of the contract dates and the receiving dates of the transfer prices regarding the set of items related to the reimbursement rights transferred and accepted liability for compensation for damages and others defined. As of March 31, 2006, the maximum amount of compensation for damages and others defined on the contracts was ¥5,012 million ($42,664 thousand).

b. Residual Value Guarantees in a Sale and Leaseback Agreement

As of March 1, 2006, SCC transferred a portion of the internal equipment in its outlets to SMBC Leasing Company Limited and then entered into a sale and leaseback agreement with SMBC Leasing Company Limited. The agreement stipulates that when it expires, SCC may continue the agreement by paying an estimated disposal price of ¥2,751 million ($23,419 thousand), determined at the time the agreement was concluded, as a minimum principal, or may terminate the agreement by having the property revert to the appraisal or disposal value at the time it is returned and then paying the difference between the value and the estimated disposal price. Under the agreement, SCC shall pay a guarantee of ¥45 million ($383 thousand) each month and deposit a total of ¥2,751 million ($23,419 thousand) during the lease agreement term to secure debt consisting of lease payments and a residual value guarantee of ¥2,751 million ($23,419 thousand). Deposited guarantees outstanding as of March 31, 2006 totaled ¥45 million ($383 thousand).

10. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥12,305 million ($104,748 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

Upon resolution and approval of the Board of Directors on September 13, 2004, the Company issued ¥3,000 million of zero coupon unsecured convertible bonds with warrants to Goldman Sachs International on September 29, 2004. The bonds were due September 29, 2009, and the warrants were exercisable from September 30, 2004 through September 28, 2009. Upon exercise of the warrants, the bonds were convertible into the Company's common stock. The issue price of the bonds was 100% of the face value of the bonds, and the issue price and the issued number of the warrants were nil and 30 warrants, respectively. The initial conversion price of the warrants was ¥140,700 per share, which was subject to be adjusted, based upon certain formulas. By March 28, 2005, all the warrants were exercised, and the bonds were fully converted into the Company's common stock. Due to this transaction, 37,416 shares of treasury stock were reissued, which resulted in a decrease in treasury stock by ¥2,749 million and an increase in capital surplus by ¥251 million.

For the years ended March 31, 2006 and 2005, the Group repurchased 2,053 shares and 290 shares of its common stock in the aggregate amounts of ¥185 million ($1,574 thousand) and ¥31 million, respectively.

In addition, for the years ended March 31, 2006 and 2005, the Group disposed of 1,220 shares and zero of its common stock in the amounts of ¥42 million ($359 thousand) and zero, respectively. As a result, the Group recognized gain on disposal as capital surplus in the amounts of ¥13 million ($116 thousand) and zero, respectively.

11. LEASES

The Group leases certain equipment, furniture and fixtures, and computer software.

Total rental expenses including lease payments for the years ended March 31, 2006 and 2005 were ¥18,242 million ($155,295 thousand) and ¥17,646 million, respectively.

For the year ended March 31, 2006, the Group recorded an impairment loss of ¥384 million ($3,270 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in other long-term liabilities.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
	Furniture and Equipment	Furniture and Equipment	Furniture and Equipment
Acquisition cost	**¥26,648**	¥23,485	**$226,847**
Accumulated depreciation	**12,572**	12,573	**107,021**
Accumulated impairment loss	**314**		**2,669**
Net leased property	**¥13,762**	¥10,912	**$117,157**

Obligations under finance leases as of March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 4,575**	¥ 5,128	**$ 38,943**
Due after one year	**9,679**	6,209	**82,398**
Total	**¥14,254**	¥11,337	**$121,341**

Allowance for impairment loss on leased property of ¥216 million ($1,838 thousand) as of March 31, 2006 is deducted from the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases for the years ended March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Depreciation expense	**¥ 5,124**	¥ 5,065	**$43,616**
Interest expense	**390**	529	**3,318**
Total	**¥ 5,514**	¥ 5,594	**$46,934**
Lease payments	**¥ 5,610**	¥ 5,576	**$47,753**
Reversal of allowance for impairment loss on leased property	**¥ 168**		**$ 1,432**
Impairment loss	**¥ 384**		**$ 3,270**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The future minimum lease payments under noncancelable operating leases as of March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥258	$2,196
Due after one year	612	5,210
Total	¥870	$7,406

12. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 40.69% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Accrued bonuses	**¥ 700**	¥ 669	**$ 5,962**
Valuation losses of subsidiaries' stock	**569**	565	**4,848**
Valuation losses of investment securities	**258**	258	**2,198**
Retirement allowances for directors and corporate auditors	**213**	199	**1,811**
Depreciation and amortization	**1,140**	962	**9,701**
Impairment	**929**		**7,907**
Valuation losses of land		49	
Enterprise tax	**174**	107	**1,478**
Allowance for doubtful accounts	**1,343**	924	**11,434**
Tax loss carryforwards	**1,730**	3,207	**14,726**
Other	**205**	210	**1,748**
Less valuation allowance	**(2,754)**	(1,758)	**(23,447)**
Deferred tax assets	**4,507**	5,392	**38,366**
Deferred tax liabilities:			
Reduction of subsidiaries' stock	**(1,424)**	(1,424)	**(12,122)**
Valuation gains of land	**(232)**	(232)	**(1,976)**
Deferred tax liabilities	**(1,656)**	(1,656)	**(14,098)**
Net deferred tax assets	**¥ 2,851**	¥ 3,736	**$24,268**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Normal effective statutory tax rate	**40.69%**	40.69%
Permanent differences	**1.63**	3.06
Inhabitants taxes—per capita	**11.18**	15.78
Dividend income from subsidiaries	**0.01**	1.26
Application of tax loss carryforwards	**5.83**	5.24
Tax on undistributed profits	**24.89**	10.79
Amortization of goodwill	**(0.19)**	17.61
Tax rate difference with subsidiaries	**0.85**	1.37
Other—net	**(2.99)**	0.69
Actual effective tax rate	**81.90%**	96.49%

13. PLEDGED ASSETS

A time deposit of ¥15 million ($128 thousand) and investment securities of ¥3 million ($25 thousand) were pledged as security deposits for dealing as of March 31, 2006.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Payroll	**¥ 4,694**	¥ 4,521	**$ 39,961**
Commissions	**782**	1,031	**6,659**
Provision for accrued bonuses	**451**	443	**3,837**
Retirement benefit costs	**28**	32	**242**
Provision for retirement allowances for directors and corporate auditors	**32**	49	**272**
Depreciation and amortization	**496**	415	**4,225**
Provision for allowance for doubtful accounts	**3**	1	**22**
Amortization of goodwill	**134**	320	**1,140**
Other	**7,867**	8,108	**66,972**
Total	**¥14,487**	¥14,920	**$123,330**

15. DERIVATIVES

The Group enters into derivatives, in the normal course of business, to reduce the exposure to fluctuations in interest rates. The primary classes of derivatives used by the Group are interest rate swaps and interest rate caps.

The Group has purchased interest rate swaps and interest rate caps to limit the unfavorable impact from increases in interest rates on floating-rate long-term debt. The interest rate swaps and interest rate caps effectively limit the Group's interest expense on specified amounts of floating-rate long-term debt to a maximum rate.

It is the Group's policy to use derivatives only for the purpose of reducing interest rate risks associated with borrowings, and the Group does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk. Also, all of the Group's derivative transactions are related to qualified hedges of interest rate risks associated with borrowings, and the Group only purchases those derivatives and pays interest on long-term debt at fixed rates. Therefore, the Group believes they bear no risk of incurring losses related to market risk.

Derivative transactions entered into by the Group have been made in accordance with management approval on request for managerial decision, and the execution and control of derivatives are performed by the Finance Department. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made. In addition, the Group confirms with financial institutions notional amounts and other information for each derivative transaction at the fiscal year end.

Since all of the Group's derivative contracts qualified for hedge accounting for the years ended March 31, 2006 and 2005, these contracts were excluded from disclosure of market value information.

16. RELATED PARTY TRANSACTIONS

Transactions of the Group with the related parties for which the Company's directors are major shareholders for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Advertising revenue		¥ 11	
Insurance expenses	**¥ 7**	9	**$ 56**
Rent expenses	**550**	550	**4,680**
Purchase of common stock		442	

The balances due to or from these related parties at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Security deposits	**¥1,100**	¥1,100	**$9,360**

17. NET INCOME PER SHARE

Diluted net income per share for fiscal year 2006 was not disclosed because no warrants or convertible bonds are outstanding.

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 was as follows:

	Millions of Yen	Shares	Yen
Year Ended March 31, 2005	Net Income	Weighted-Average Shares	EPS
Basic EPS—Net income available to common shareholders	¥24	320,249	¥73.55
Effect of dilutive securities—Warrants		16,070	
Diluted EPS—Net income for computation	¥24	336,319	¥70.03

18. SEGMENT INFORMATION

The Group operates in the following business segments:

"SLOGIX Businesses" consists of sales of groceries and consumable supplies to office food service businesses, restaurant industry and design and sales of kitchen equipment.

"Contracted Food Services" consists of providing food and management services for dining rooms of companies or schools.

"Medical Food Services" consists of providing food service for hospitals.

"Restaurant and Karaoke Businesses" principally consists of the management of large entertainment restaurants and online karaoke houses.

"Deli and Convenience Services" consists of providing food prepared for takeout.

"Others" principally consists of retail and restaurant businesses in tourist facilities and a lodging business in sports facilities.

Information about business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2006 and 2005 was as follows:

(1) Business Segments

a. Sales and Operating Income

	Millions of Yen							
	2006							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 5,203	¥39,630	¥39,087	¥61,185	¥11,815	¥ 1,030		¥157,950
Intersegment sales	40,199	49	15	5		735	¥(41,003)	
Total sales	45,402	39,679	39,102	61,190	11,815	1,765	(41,003)	157,950
Operating expenses	42,849	37,668	39,084	54,507	12,030	2,177	(36,725)	151,590
Operating income (loss)	¥ 2,553	¥ 2,011	¥ 18	¥ 6,683	¥ (215)	¥ (412)	¥ (4,278)	¥ 6,360

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen							
	2006							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Total assets	¥10,491	¥6,317	¥6,100	¥48,363	¥2,268	¥ 856	¥10,736	¥85,131
Depreciation	53	220	107	3,154	15	93	139	3,781
Impairment loss		402	10	2,204			22	2,638
Capital expenditures	17	100	41	1,467	39	157	111	1,932

a. Sales and Operating Income

	Thousands of U.S. Dollars							
	2006							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$ 44,292	$337,363	$332,736	$520,856	$100,580	$ 8,776		$1,344,603
Intersegment sales	342,211	418	130	42		6,263	$(349,064)	
Total sales	386,503	337,781	332,866	520,898	100,580	15,039	(349,064)	1,344,603
Operating expenses	364,768	320,662	332,710	464,003	102,411	18,534	(312,625)	1,290,463
Operating income (loss)	$ 21,735	$ 17,119	$ 156	$ 56,895	$ (1,831)	$ (3,495)	$ (36,439)	$ 54,140

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. Dollars							
	2006							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Total assets	**$89,306**	**$53,778**	**$51,929**	**$411,707**	**$19,305**	**$7,286**	**$91,397**	**$724,708**
Depreciation	**454**	**1,873**	**914**	**26,847**	**130**	**794**	**1,177**	**32,189**
Impairment loss		**3,425**	**86**	**18,764**			**180**	**22,455**
Capital expenditures	**145**	**847**	**351**	**12,490**	**334**	**1,336**	**947**	**16,450**

a. Sales and Operating Income

	Millions of Yen							
	2005							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 9,638	¥39,777	¥36,875	¥62,075	¥5,983	¥ 916		¥155,264
Intersegment sales	39,475	50		4		583	¥(40,112)	
Total sales	49,113	39,827	36,875	62,079	5,983	1,499	(40,112)	155,264
Operating expenses	47,181	38,505	37,102	56,094	6,081	1,970	(35,033)	151,900
Operating income (loss)	¥ 1,932	¥ 1,322	¥ (227)	¥ 5,985	¥ (98)	¥ (471)	¥ (5,079)	¥ 3,364

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen							
	2005							
	SLOGIX Businesses	Contracted Food Services	Medical Food Services	Restaurant and Karaoke Businesses	Deli and Convenience Services	Others	Eliminations/ Corporate	Consolidated
Total assets	¥9,863	¥6,943	¥6,533	¥56,615	¥2,632	¥1,006	¥8,286	¥91,878
Depreciation	62	264	138	3,221	9	36	80	3,810
Capital expenditures	103	657	119	6,384	6	198	347	7,814

Notes: 1. Operating expenses mainly incurred in administrative departments and advertising activities were unallocatable and included in "Eliminations/Corporate" of operating expenses with the aggregate amounts of ¥4,271 million ($36,365 thousand) and ¥5,038 million for the years ended March 31, 2006 and 2005, respectively.

2. Total corporate assets of ¥17,694 million ($150,628 thousand) and ¥15,024 million included in "Eliminations/Corporate" of total assets as of March 31, 2006 and 2005, respectively, mainly consisted of operating funds (cash and cash equivalents), long-term investment funds (investment securities) and assets used in administrative departments.

3. Due to consolidation into the Group, SHiDAX i's business operations and sales of deli and convenience services were added into "Deli and Convenience Services" in the year ended March 31, 2005.

(2) Geographical Segments

The Company and subsidiaries were located and conducted their operations in Japan in the fiscal years 2006 and 2005; therefore, geographical segment information for the years ended March 31, 2006 and 2005 was not presented.

(3) Sales to Foreign Customers

No sales to foreign customers were recorded for the years ended March 31, 2006 and 2005; therefore, such information was not presented.

19. SUBSEQUENT EVENT

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's general shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥1,500.00 ($12.77) per share	**¥529**	**$4,503**
Bonuses to directors	**104**	**888**

b. Newly Included Subsidiaries

At a meeting of the Board of Directors held on May 1, 2006, for the purpose of meeting the needs of customers and enhancing corporate value by sharing each others expertise, the Company adopted a resolution specifying that SHiDAX USA Corporation ("SUC"), a wholly owned subsidiary established in the United States on April 27, 2006, would acquire an ownership stake in Restaurant Hospitality LLC, making Restaurant Hospitality LLC and its subsidiaries the Company's consolidated subsidiaries. SUC invested in Restaurant Hospitality LLC and at the same time acquired the stake that Fortunato Nick Valenti, etc. had in Restaurant Hospitality LLC. As a result, SUC has an 85% stake in Restaurant Hospitality LLC, making Restaurant Hospitality LLC the Company's consolidated subsidiary. At the same time, Restaurant Hospitality LLC exercised its right to acquire an additional 63.4% of RA/Patina LLC owned by Compass Group of United Kingdom. As a result, Restaurant Hospitality LLC holds 69.4% of RA/Patina LLC, making RA/Patina LLC its consolidated subsidiary.

c. Business Transfer

At a meeting of the Board of Directors held on May 8, 2006, for the purpose of enhancing the Group's value by the introduction of different restaurant types and an efficient restaurant management system into the existing restaurants in Shibuya, the Company adopted a resolution specifying that VAS Food Service Corporation, a wholly owned consolidated subsidiary established on April 19, 2006, would take over all businesses of Kobayashi Jimusho K.K. including the restaurant business, systems business and planning business, and concluded a business transfer agreement with Kobayashi Jimusho K.K. the same day.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
SHiDAX CORPORATION:

We have audited the accompanying consolidated balance sheets of SHiDAX CORPORATION (the "Company") and consolidated subsidiaries (the "Group") as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHiDAX CORPORATION and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.e to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

As discussed in Note 19.b to the consolidated financial statements, the Company adopted a resolution at a meeting of the Board of Directors held on May 1, 2006, acquiring an ownership stake in Restaurant Hospitality LLC.

As discussed in Note 19.c to the consolidated financial statements, the Company adopted a resolution at a meeting of the Board of Directors held on May 8, 2006, acquiring all businesses of Kobayashi Jimusho K.K.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu